

**SOUTH CAROLINA DEPARTMENT OF COMMERCE
COLUMBIA, SOUTH CAROLINA**

FINANCIAL STATEMENTS

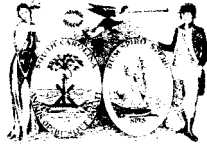
YEAR ENDED JUNE 30, 2002

SOUTH CAROLINA DEPARTMENT OF COMMERCE

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State of South Carolina



Office of the State Auditor

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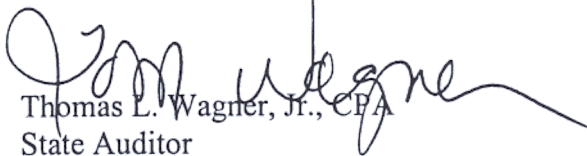
March 6, 2003

The Honorable Mark Sanford, Governor
and
Mr. Robert Faith, Secretary
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce for the fiscal year ended June 30, 2002, was issued by Rogers & Laban, PA, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/sag



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS
INDEPENDENT AUDITOR'S REPORT

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Commerce (the "Department") as of and for the year ended June 30, 2002, as listed in the table of contents. These financial statements are the responsibility of the South Carolina Department of Commerce's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Department's enterprise funds, which are comprised of the Division of Public Railways and Division of Savannah Valley Development, which should be included in order to conform with accounting principles generally accepted in the United States of America. The omitted funds have assets, liabilities, revenues, and expenses as follows as of and for the years ended:

	December 31, 2001 Public Railways	June 30, 2002 Savannah Valley
Assets	\$ 37,852,171	\$ 21,105,812
Liabilities	4,928,763	16,551,129
Revenues	8,002,306	1,433,944
Expenses	5,407,177	1,310,184

As described in Note 1 to the financial statements, the financial statements of the South Carolina Department of Commerce are intended to present the financial position and results of operations of only that portion of the financial reporting entity of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce, excluding its enterprise funds noted in the above paragraph. They do not purport to and do not present the financial position of the State of South Carolina as of June 30, 2002, and changes in its financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and do not include, other agencies, divisions or component units of the State of South Carolina.

In our opinion, except for the effect on the financial statements of the omissions described in the third paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental fund activities, each major fund and the aggregate remaining fund information of the South Carolina Department of Commerce as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.



As described in Note 1 to the basic financial statements, the Department adopted the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-For State and Local Governments and Statement No. 37, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments: Omnibus as of July 1, 2001. This results in a change in the format and content of the financial statements as detailed in Note 1. Also, the Department changed its capitalization policy and an adjustment was made to remove those capital assets that were less than the new policy capitalization levels and changed its period of availability for the fund statements from 30 days to one year. Management also discovered errors in the misstatement of certain assets and liabilities. The required adjustments and the correction of the errors were accounted for as prior period adjustments as detailed in Note 20.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Department taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2003 on our consideration of the South Carolina Department of Commerce's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Roger A. Lalor, P.A.

January 27, 2003

SOUTH CAROLINA DEPARTMENT OF COMMERCE MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview of the Financial Statements and Financial Analysis

As management of the South Carolina Department of Commerce (“the Department”), we provide this Management's Discussion and Analysis of the South Carolina Department of Commerce’s Financial Statements for the fiscal year ended June 30, 2002 as a narrative overview and analysis. We encourage readers to consider this information in conjunction with the Department’s financial statements, which follow.

A requirement of the Management's Discussion and Analysis is that it should discuss the current year results in comparison with prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. However, because this is the first year of the new GASB accounting format and there is limited comparative data, discussion will be confined to current year data.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board in Statement 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. These financial statements differ significantly, in both the form and the accounting principles utilized, from prior financial statements presented. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the Department and the results of operations.

There are two financial statements presented: the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets. This discussion and analysis of the Department’s financial statements provides an overview of its financial activities.

The Financial Statements and this Management's Discussion and Analysis do not include the Public Railways Division or the Savannah Valley Development Division of the Department of Commerce as these activities are covered by separate audit reports.

Statement of Net Assets

The Statement of Net Assets presents information reflecting the Department's assets, liabilities and net assets as of the end of the fiscal year. This statement provides the reader with a fiscal snapshot of the Department. The Statement of Net Assets presents end of year data concerning Assets (current and non-current), Liabilities (current and non-current), and Net Assets (Assets minus Liabilities). Current assets and liabilities are those with immediate liquidity or which are collectible or due within twelve months of the statement date. The Statement of Net Assets is prepared under the accrual basis of accounting, whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The assets of the Department exceeded its liabilities at fiscal year ending June 30, 2002 by \$113.3 million. The Department reported \$4.2 million as a deficit in unrestricted net assets. Unrestricted net assets generally represent the amount available to be used to meet the Department's ongoing obligations.

Condensed Statement of Net Assets
June 30, 2002

ASSETS

Current assets	\$ 8,090,230
Restricted cash and investments	107,931,074
Capital Assets, net of related depreciation	<u>7,065,718</u>
Total assets	<u>\$ 123,087,022</u>

LIABILITIES

Current liabilities	\$ 9,412,117
Long-term liabilities	<u>365,035</u>
Total liabilities	<u>\$ 9,777,152</u>
Total liabilities	

NET ASSETS

Invested in capital assets, net of related debt	\$ 7,065,718
Restricted	110,680,911
Unrestricted (deficit)	<u>(4,436,759)</u>
Total net assets	<u>113,309,870</u>
Total liabilities and net assets	<u>\$ 123,087,022</u>

The reported \$4.4 million deficit in unrestricted net assets was mainly attributed to a 3.5 million dollar grant to Spartanburg Renaissance Project that was not funded in fiscal year 2002, and other account payables and annual leave accruals.

The Department has various airport and economic development projects. The outstanding commitments for the Department as of June 30, 2002 are as follows:

Outstanding Commitments

Water and Wastewater Infrastructure Grants	\$ 79,613,220
State Rural Infrastructure	3,535,958
Community Development Block Grants	9,936,562
State Economic Development Program (Hwy Set-aside)	20,730,685
Capital Improvement Bond Funds	291,281
Aviation Fuel Tax (Earmarked Funds)	712,167
State Aviation Fund (State Funds)	308,988
Hartsville Airport (Supplemental State General Fund)	50,000
Sumter County Airport (Earmarked Funds)	100,000
Union County Airport (Earmarked Funds)	48,476
Spartanburg Renaissance (Earmarked Funds)	<u>3,000,000</u>
Total Commitments as of June 30, 2002	<u>\$118,327,337</u>

Statement of Revenues, Expenses and Changes in Net Assets

This statement represents the program revenues and expenses, as well as any general revenue that the agency receives. The purpose of this statement is to present the reader with information relating to revenues received and expenses incurred during the fiscal year.

Program revenues for the Department are classified in two categories; Charges for Services, Operating Grants and Contributions. Charges for services are received for providing services to the various customers and constituencies of the agency. Operating grants are primarily made up of grants from various activities that are mandated legislatively, for which there are no (or insufficient) appropriated funds to carry out the activities.

Because many of the individual grants are for projects that take several years to complete, the timing of the expenses in any given year can greatly affect the agency's cash flow. This accounts for substantially all of the decrease in net assets.

General revenues are revenues received for which services are not provided. State appropriations are considered general revenue because they are provided by the State without directly receiving commensurate services. The other items of general revenue included investment income and contributions from such funds as the State Admissions Tax, State Rural Infrastructure Fund, State Aviation Fund, and State Economic Development Gasoline Tax made available to the agency. Total general revenue for the agency was \$42.3 million.

Expenses for the agency are shown under the category of Economic Development and are classified as personal services; other operating costs, including grants; and interest and depreciation. Personal service costs were \$9.9 million (9.9%) for the fiscal year. Other operating costs, including grants totaling \$89.3 million (89.3%). Interest costs and depreciation expense totaled \$.6 million (.6%).

Statement of Revenues, Expenses and Changes In Net Assets For the Year Ended June 30, 2002

Revenues:

Program Revenues –	
Charges for Services	\$ 2,076,848
Operating Grants and Contributions	42,274,181
General Revenues –	
State Appropriations	12,923,278
State Capital Improvement Bonds	10,234,872
State Economic Development Programs	19,000,950
Contributions and Other	104,080
Less Amounts Transferred to State General Fund	<u>(1,045,589)</u>
Total Revenues	<u>85,568,620</u>

Expenses:

Economic Development	<u>99,788,198</u>
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Increase (decrease) in Net Assets	(14,219,578)
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Net Assets, Beginning of Year	<u>127,529,448</u>
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Net Assets, End of Year	<u>\$ 113,309,870</u>
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Capital Assets and Debt Administration

The Department's Capital Assets net of depreciation were \$7.1 million at June 30, 2002. This investment in capital assets includes aircraft and leasehold improvements, as well as computer and presentation systems. For fiscal year 2002 the Department adopted the provisions of GASB 34, which required the recording of depreciation for the first time. Capital additions during the fiscal year totaled \$161 thousand, disposals at cost totaled \$1.1 million, and book value of disposals totaled \$828 thousand.

Capital Assets As of June 30, 2002

Buildings and Improvements *	\$ 4,035,982
Furniture, Fixtures and Equipment	1,497,922
Aircraft and Vehicles	<u>4,669,631</u>
Total Cost	10,203,535
Less – Accumulated Depreciation	<u>3,137,817</u>
Net Capital Assets	<u>\$ 7,065,718</u>

* The Department's buildings are located on long-term leased land at Columbia Metropolitan Airport. The Department owns no land.

The Department did incur new debt during the fiscal year. As a result, the Department has two notes payable, both incurred during the current year. The first, for computer equipment, had an original principal amount of \$219,000 and has a final maturity date of February 2005. The note is secured by equipment held by the Department. As of June 30, 2002 the total amount still owed was approximately \$196 thousand.

The second note is an unsecured note for \$3,500,000, with a maturity date of March 1, 2003. At the direction of the former Governor, the Department borrowed these funds for the Spartanburg Renaissance Project with the understanding that it would likely be funded during the 2003 legislative session.

Economic Outlook

Downturns in the U.S. economy that began in March 2001 had a similar impact on the State of South Carolina's general fund revenue sources. As a result, the Department has undergone midyear and base budget reductions to our State Appropriated funds. Even with these reductions during the fiscal year, the Department carried out its mission and managed these shortfalls through attrition and reduced workloads arising from the slowdown. The Department is aware that future state funded appropriations may be reduced and is conducting internal and external surveys in efforts to improve efficiencies. The Department is committed to performing a zero-based budget review by the end of Fiscal 2003.

Request For Information

This financial report is designed to provide a general overview of the Department of Commerce finances for all of the Department's taxpayers, customers, and creditors. This financial report seeks to demonstrate the Department's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

South Carolina Department of Commerce
Chief Administrative Officer
1201 Main Street
Columbia, South Carolina 29201

SOUTH CAROLINA DEPARTMENT OF COMMERCE

STATEMENT OF NET ASSETS

JUNE 30, 2002

ASSETS	Governmental Activities
Current assets:	
Cash and cash equivalents	\$ 4,519,974
Accrued interest receivable	2,270
Accounts receivable	26,955
Intergovernmental receivables:	
Federal government	119,322
General Fund of the State	572,778
State agencies	2,811,716
Inventories	37,215
Total current assets	8,090,230
Noncurrent assets:	
Restricted cash and cash equivalents	29,156,074
Restricted investments	78,775,000
Capital assets	7,065,718
Total assets	\$ 123,087,022
LIABILITIES AND NET ASSETS	
Liabilities:	
Current liabilities:	
Accounts payable	\$ 4,394,915
Accrued salaries and related benefits	721,157
Accrued interest payable	35,000
Due to General Fund of the State - lapsed appropriations	27,441
Deferred revenue	2,437
Current portion of notes payable	3,571,442
Current portion of accrued compensated absences and related benefits	659,725
Total current liabilities	9,412,117
Noncurrent liabilities:	
Notes payable, net of current portion	124,245
Accrued compensated absences and related benefits, net of current portion	240,790
Total noncurrent liabilities	365,035
Total liabilities	9,777,152
Net assets:	
Invested in capital assets, net of related debt	7,065,718
Restricted for:	
Water and wastewater infrastructure grants and administrative costs	79,202,465
State economic development projects	19,010,598
Admission tax projects	2,305,976
Aviation fuel tax projects	1,438,178
State rural infrastructure fund training and projects	4,718,720
State General Fund appropriations	2,827,919
General fund restricted purpose funds	1,177,055
Unrestricted (deficit)	(4,436,759)
Total net assets	113,309,870
Total liabilities and net assets	\$ 123,087,022

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2002**

	Governmental Activities
Expenses:	
Economic development:	
Personal services	\$ 9,887,753
Other operating costs, including grants	89,275,344
Interest expense	37,818
Depreciation	587,283
	<hr/>
Total program expenses	99,788,198
Program revenues:	
Charges for services	2,076,848
Operating grants and contributions	42,274,181
	<hr/>
Net program expenses	55,437,169
	<hr/>
General revenues:	
State appropriations	12,923,278
State capital improvement bond revenue	10,234,872
State admissions tax	1,000,950
State economic development gasoline tax	18,000,000
Sale of surplus noncapitalized equipment	3,580
Contributions	100,500
	<hr/>
Total general revenues	42,263,180
	<hr/>
Transfers:	
Transfers to General Fund of the State	(920,437)
Indirect costs remitted to General Fund of the State	(97,711)
Lapsed appropriations to General Fund of the State	(27,441)
	<hr/>
Total transfers	(1,045,589)
	<hr/>
Increase (decrease) in net assets	(14,219,578)
Net assets - beginning of year, as restated	127,529,448
	<hr/>
Net assets - end of year	\$ 113,309,870
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See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2002

ASSETS	<u>General</u>	<u>Federal</u>	<u>Water and Wastewater Infrastructure</u>	<u>State Economic Development</u>	<u>Other Governmental</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 517,984	\$ 2,406	\$ 1,735,246	\$ 2,144,204	\$ 120,134	\$ 4,519,974
Cash and cash equivalents - restricted	4,002,974		425,175	19,010,598	5,717,327	29,156,074
Investments - restricted			78,775,000			78,775,000
Accrued interest receivable			2,270			2,270
Accounts receivable	26,955					26,955
Due from other State Agencies	63,859	2,290	20		2,745,547	2,811,716
Due from General Fund of the State	572,778					572,778
Due from Federal Government		119,322				119,322
Inventories	37,215					37,215
Total Assets	<u><u>\$ 5,221,765</u></u>	<u><u>\$ 124,018</u></u>	<u><u>\$ 80,937,711</u></u>	<u><u>\$ 21,154,802</u></u>	<u><u>\$ 8,583,008</u></u>	<u><u>\$ 116,021,304</u></u>
LIABILITIES AND FUND EQUITY						
LIABILITIES:						
Accounts payable	\$ 363,602	\$ 50,196	\$ 1,721,503	\$ 2,144,204	\$ 115,410	\$ 4,394,915
Accrued salaries and related benefits	631,305	71,385	13,743		4,724	721,157
Due to General Fund of the State - lapsed appropriations	27,441					27,441
Deferred revenue		2,437				2,437
Total Liabilities	<u><u>1,022,348</u></u>	<u><u>124,018</u></u>	<u><u>1,735,246</u></u>	<u><u>2,144,204</u></u>	<u><u>120,134</u></u>	<u><u>5,145,950</u></u>
FUND EQUITY:						
Fund Balances:						
Reserved for inventories	37,215					37,215
Reserved for restricted purpose funds carried forward	1,175,055					1,175,055
Reserved for State General Fund appropriations carried forward	2,827,919					2,827,919
Reserved for special events	387,994					387,994
Reserved for State economic development projects				19,010,598		19,010,598
Reserved for admissions tax projects					2,305,976	2,305,976
Reserved for aviation fuel tax projects					1,438,178	1,438,178
Reserved for State rural infrastructure fund training and projects					4,718,720	4,718,720
Reserved for water and wastewater infrastructure grants and administrative costs			79,202,465			79,202,465
Unreserved:						
Undesignated (deficit)	(228,766)					(228,766)
Total Fund Equity	<u><u>4,199,417</u></u>	<u><u>-</u></u>	<u><u>79,202,465</u></u>	<u><u>19,010,598</u></u>	<u><u>8,462,874</u></u>	<u><u>110,875,354</u></u>
Total Liabilities and Fund Equity	<u><u>\$ 5,221,765</u></u>	<u><u>\$ 124,018</u></u>	<u><u>\$ 80,937,711</u></u>	<u><u>\$ 21,154,802</u></u>	<u><u>\$ 8,583,008</u></u>	<u><u>\$ 116,021,304</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE
BALANCE SHEET - GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2002

Reconciliation to the statement of net assets:

Fund balances - governmental funds		\$	110,875,354
Amounts reported for governmental activities in the statement of net assets are different because:			
Liabilities are not due and payable in the current period, therefore, are not reported in the fund:			
Notes payable	\$	(3,695,687)	
Accrued compensated absences and related benefits		(900,515)	
Accrued interest payable		(35,000)	(4,631,202)
Assets capitalized and depreciated in statement of net assets are charged to expenditures in the governmental fund:			
Capital assets, net of accumulated depreciation			7,065,718
Net assets of governmental activities		\$	113,309,870

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2002

	General	Federal	Water and Wastewater Infrastructure	State Economic Development	Other Governmental	Total Governmental Funds
REVENUES:						
State appropriations	\$ 12,923,278	\$	\$	\$	\$	\$ 12,923,278
Highway taxes for State economic development				18,000,000		18,000,000
Federal grants		35,651,724				35,651,724
Allocations from other State Agencies	150,000					150,000
Donations and contributions	100,500					100,500
Enterprise Zone Act fees	333,500					333,500
Application fees			1,611,993			1,611,993
Admissions taxes					1,000,950	1,000,950
Sale of publications	83,536					83,536
Aircraft rental	21,503					21,503
Sales of goods and services	55,073					55,073
Sales of surplus equipment and vehicles	654,780					654,780
Special events registration fees	50,565					50,565
Sponsorships of special events	151,000					151,000
Investment income	7,578		1,451,702			1,459,280
State Aviation Fund fees/taxes					643,108	643,108
Capital improvement bond revenue	10,234,872					10,234,872
Miscellaneous revenue	257,757					257,757
State Rural Infrastructure Fund job development fees					3,885,570	3,885,570
TOTAL REVENUES	25,023,942	35,651,724	3,063,695	18,000,000	5,529,628	87,268,989
EXPENDITURES:						
Administration and Support:						
Office of the Secretary	627,043					627,043
Financial services	2,866,140					2,866,140
Information technology	875,797					875,797
Programs and Services:						
Appalachian Regional Commission Grant funds	22,087	21,309				43,396
Export services	1,068,018	78,818				1,146,836
Business recruitment	3,053,490					3,053,490
Marketing	388,172					388,172
Film office	542,241					542,241
Research administration	1,313,588					1,313,588
Communications and special events	807,929					807,929
Rural and community development	439,705					439,705
Economic development set-aside administrative costs, projects and grants	657,633			26,760,018		27,417,651
Enterprise zone administrative and other costs	332,500					332,500
Community grants	462,400	35,056,775				
Admission tax infrastructure grants					494,845	494,845

SOUTH CAROLINA DEPARTMENT OF COMMERCE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS(CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002

	General	Federal	Water and Wastewater Infrastructure	State Economic Development	Other Governmental	Total Governmental Funds
Flight operations	1,670,258	335,285				2,005,543
Recycling Market Development Advisory Council	119,712	13,433				133,145
Technology Division		45,470				45,470
State Rural Infrastructure Fund training and projects					548,461	548,461
Water and Wastewater Infrastructure grants and administrative costs			3,169,206			3,169,206
Allocation to other entities for airport capital improvements	234,872					234,872
Special items:						
Spoleto Festival	246,000					246,000
Coordinating Council for Economic Development	26,872					26,872
Union County airport improvements	83,654					83,654
State Aviation Fund airport improvement projects and grants	223,699				496,054	719,753
Lake Marion Regional Water Project	8,000,000					8,000,000
Oconee Cemetery				500,000		500,000
World Trade Center	100,000					100,000
Spartanburg Renaissance	7,500,000					7,500,000
TOTAL EXPENDITURES	<u>31,661,810</u>	<u>35,551,090</u>	<u>3,169,206</u>	<u>27,260,018</u>	<u>1,539,360</u>	<u>99,181,484</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(6,637,868)	100,634	(105,511)	(9,260,018)	3,990,268	(11,912,495)
OTHER FINANCING SOURCES (USES):						
Transfers between funds	800,240			(460,000)	(340,240)	-
Remitted to the General Fund of the State	(498,023)				(422,414)	(920,437)
Lapse to the General Fund of the State	(27,441)					(27,441)
Proceeds from Notes Payable	3,719,000					3,719,000
Indirect cost recovery remitted to General Fund of the State		(97,711)				(97,711)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,993,776</u>	<u>(97,711)</u>	<u>-</u>	<u>(460,000)</u>	<u>(762,654)</u>	<u>2,673,411</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)	(2,644,092)	2,923	(105,511)	(9,720,018)	3,227,614	(9,239,084)
FUND BALANCES - BEGINNING OF YEAR, AS RESTATED	<u>6,843,509</u>	<u>(2,923)</u>	<u>79,307,976</u>	<u>28,730,616</u>	<u>5,235,260</u>	<u>120,114,438</u>
FUND BALANCES - END OF YEAR	<u>\$ 4,199,417</u>	<u>\$ -</u>	<u>\$ 79,202,465</u>	<u>\$ 19,010,598</u>	<u>\$ 8,462,874</u>	<u>\$ 110,875,354</u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2002**

RECONCILIATION TO THE STATEMENT OF ACTIVITIES:

Revenues and other financing sources over (under) expenditures and other financing uses for the governmental funds	\$ (9,239,084)
Amounts reported for governmental activities in the statement of activities are different because:	
Cost of capital assets are reported as expenditures in the governmental funds, but are recorded as capital asset additions in the statement of net assets	160,975
Proceeds of notes payable are reported as an other financing source in the governmental funds and an increase in liabilities on the statement of net assets	(3,719,000)
Depreciation of capital assets is reported as an expense in the statement of activities	(587,283)
Increase in accrued interest payable is reported as a increase of expenses in statement of activities	(35,000)
Repayments of notes payable are reported as expenditures in the governmental funds, but the repayments reduce liabilities in the statement of net assets	23,313
Decrease in accrued compensated absences reported as a decrease of expenses in the statement of activities	4,493
Proceeds from the sale of assets are reported as revenues in the governmental funds but are part of the loss on sale of assets on the entity-wide statements	(654,780)
Loss on disposals of capital assets are reported as an expense in the statement of activities	<u>(173,212)</u>
INCREASE (DECREASE) IN NET ASSETS	<u><u>\$ (14,219,578)</u></u>

See accompanying Notes to Financial Statements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of South Carolina Department of Commerce (the Department) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Department's accounting policies are described below.

Reporting Entity

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary government/entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary government/entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government/entity. The primary government/entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally independent if it holds all three of the following powers:

1. Determines its budget without another government's having the authority to approve and modify that budget.
2. Levies taxes or set rates or charges without approval by another government.
3. Issues bonded debt without approval by another government.

Otherwise, the organization is fiscally dependent on the primary government/entity that holds one or more of these powers.

The Department is responsible for the stimulation of economic development activity, management of business affairs of the Division of Savannah Valley Development, development of public airports and air transportation systems, and development of public railways systems. The Department is an agency of the State of South Carolina established by Section 1-30-10 and 1-30-25 of the Code of Laws of South Carolina.

The Department was created by the Government Restructuring Act of 1993 which became effective on July 1, 1993. The Governor appoints the director of this cabinet level department. The agency consists of a combination of the former agencies of the State Development Board, Aeronautics Commission, Coordinating Council for Economic Development (Coordinating Council), Savannah Valley Authority, and the South Carolina Public Railways Commission. Management has elected to exclude its enterprise funds, the Division of Public Railways and the Division of Savannah Valley Development from this reporting entity. Separate audited financial statements are available for each of the excluded divisions. The funds and account groups of the Department, including the two divisions excluded from this report, are included in the Comprehensive Annual Financial Report of the State of South Carolina, the primary government. Copies of the reports for the two excluded divisions can be obtained from the Department at P.O. Box 927, Columbia, South Carolina, 29202.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The accompanying financial statements present the financial position and results of operations and note disclosures of only those transactions of the State of South Carolina that are attributable to the Department reporting entity defined above.

Governmental Funds

Governmental funds are those through which most governmental functions typically are financed and used to account for the government's general government activities including the collection and disbursement of earmarked funds. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the differences between the assets and liabilities is the fund balance.

The Department reports the following major funds:

The general fund accounts for all activities except those required to be accounted for in another fund. Major revenue sources include the annual state appropriation as approved by the General Assembly, donations and contributions for special marketing events, State Capital Improvement Bond proceeds for grants to municipalities for airport improvements, allocations from other State agencies, and charges for goods and services. The revenues are used for general ongoing governmental services such as administration, maintenance, aeronautics and economic program development and service. Also included are operating transfers from the special revenue fund for Coordinating Council administrative costs and expenditures and for the South Carolina Infrastructure – Economic Development Planning Project expenditures. The general fund also includes application fees not to exceed \$2,000 from qualifying businesses applying for the tax incentives allowed under the Enterprise Zone Act of 1995. The application fees collected by the Coordinating Council must be expended for administrative, data collection, credit analysis, cost/benefits analysis, reporting and any other obligations pursuant to the Act. The Act allows for the carryforward of unexpended funds collected under the Act to the next fiscal year to be expended for the same purpose.

Federal funds consist primarily of Community Development Block Grant funds and are used primarily for water and sewage infrastructure grants and community housing grants.

The Water and Wastewater Infrastructure Fund was established by an act of the legislature in the fiscal year ended June 30, 2001. The fund received a portion of the proceeds (approximately \$78,000,000) from bonds that were sold by the South Carolina Tobacco Settlement Revenue Management Authority. The Department is not required to repay these funds. These funds along with any investment earnings is to be used to make grants to governmental units and private entities for constructing and improving water and wastewater facilities that are necessary for public purposes, including economic development, and for technology related infrastructure grants for local units of government. The Department charged each applicant 2% of the grants awarded to be used for administrative expenses of operating the program. These application fees totaling approximately \$1,612,000 were received in the fiscal year ended June 30, 2002.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The State Economic Development account established by South Carolina Code of Law Section 12-28-2910. This account accumulates the first \$18 million generated from the tax levied in Section 12-28-310. The proceeds are to be used for economic development projects approved through the Coordinating Council. The Coordinating Council establishes project priorities and authorizes all project expenditures. The economic development set-aside expenditures is primarily expended for infrastructure grants for roads when needed to complete negotiations with an economic development prospect.

Other non-major governmental funds include admissions tax revenue authorized by Section 12-21-6510. Section 12-21-6540 provides that amount equal to one-fourth of the license tax on admissions to major tourism facilities collected by the Department of Revenue is remitted to the Department. The Coordinating Council approves expenditures of these funds specifically for infrastructure development grants. Other governmental funds also include the Aviation Fuel tax authorized by Section 55-5-280 which provides for "all monies received from the licensing of airports, landing fields and air schools, the tax on aviation gasoline and fees and other licenses under this chapter to be credited to the "State Aviation Fund" to be used for airport improvements and job development fees paid by various companies received by the Department. These job development fees are authorized by Section 12-10-85 to provide financial assistance to local government under the State Rural Infrastructure Fund for training cost and facilities; improvements to regionally planned public and private water and sewer systems; improvements to both public and private electricity, natural gas, and telecommunications systems; and fixed transportation facilities.

Government-wide and Fund Financial Statements

The financial statements of the Department are presented in accordance with accounting principles generally accepted in the United States of America applicable to state and local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

Measurement Focus, Basis of accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Department considers revenues to be available if they are collected within one year of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Revenues – Exchange and Non-Exchange Transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Department, available means expected to be received within one year of the fiscal year-end.

Nonexchange transactions, in which the Department receives value without directly giving value in return, include grants and donations. On an accrual basis, revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Department must provide local resources to be used for a specific purpose, and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must be available before it can be recognized.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Department follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements costing \$100,000 or more that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Department capitalized movable personal property with a unit value in excess of \$5,000 and a useful life in excess of one year and buildings and improvements and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles.

Budget Policy

The Department is granted an annual appropriation for operating purposes by the General Assembly. The appropriation as enacted becomes the legal operating budget for the Department. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

A budget versus actual comparison is not presented as required supplementary information for any of the funds since not all revenues or expenditures are legally budgeted in any of the funds.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Cash and cash equivalents with State Treasurer

The amounts shown in the financial statements as "Cash and cash equivalents with State Treasurer" represent cash on hand with the State Treasurer and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool.

Most State agencies including the Department participate in the State's internal cash management pool. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertinent to the cash management pool, see the deposits disclosure in Note 3.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Department records and reports its deposits in the general deposit account at cost and reports its deposits in the special deposit accounts at fair value. Investments held by the pool are recorded at fair value. Interest earned by the Department's special deposit accounts is posted to the Department's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Department's accumulated daily interest receivable to the total income receivable of the pool. Reported interest income includes interest earnings at the stated interest rate, realized gains/losses and unrealized gains/losses arising from changes in the fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the percentage ownership in the pool.

Compensated Absences

State employees are entitled to accrue and carry forward at calendar year-end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave and compensatory holiday leave earned for which the employees are entitled to paid time off or payment at termination. In the governmental funds, expenditures for compensated absences are recorded when payment is made. Since no funds are budgeted for compensated absences in excess of the actual amount incurred during the year, no additional expenditures are accrued as a current liability of the governmental funds. The Department calculates the gross compensated absence liability based on recorded balances of unused leave. The entire unpaid liability, inventoried at current fiscal year-end salary costs and the cost of the salary related benefit payments, is recorded as a liability in the statement of net assets.

Indirect Cost Recoveries

The receipt of indirect cost recoveries on government-sponsored programs have been included in the special revenue fund as federal grants revenue and payments of certain of these recoveries to the State's General Fund have been recorded as other financing uses. State law requires the Department to remit to the General Fund of the State recoveries from federal grants and awards whose annual award is in excess of \$200,000. The Department retains and expends other recoveries.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Net Assets / Fund Balance

The Department records reservations for portions of its fund equity which are legally segregated for specific future uses or which do not represent available expendable resources and therefore, are not available for expenditures in the governmental fund balance sheet. Unreserved fund balance indicates that portion of fund equity, which is available for appropriations, in future periods. If restricted and unrestricted assets are available for the same purpose, then restricted assets will be used before unrestricted assets.

Net assets are categorized as follows:

Invested in capital assets, net of related debt: This represents the Fund's total investment in capital assets, net of outstanding debt obligations, if any, related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted: Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted net assets: Consists of the remainder of the Department's assets in excess of liabilities excluding those net assets reported in other categories.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2. STATE APPROPRIATION:

The following represents a reconciliation of the Appropriation Act for the period ended June 30, 2002 as originally enacted by the General Assembly to appropriation revenue as reported in the general fund.

Original appropriation	\$ 13,596,819
Allocations by State Budget & Control Board:	
Employee base pay increase (Proviso 63C.9)	246,461
State budget mid-year reductions	(888,627)
Supplemental appropriation for World Trade Center (Proviso 72.111)	<u>100,000</u>
Adjusted Appropriation, Budgetary Basis	13,054,653
Accrual adjustments:	
Funding for personal services and employer contributions	<u>(131,375)</u>
Accrual basis State appropriation revenue	<u>\$ 12,923,278</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

The Coordinating Council receives State General Fund appropriations for special purposes only. These appropriations do not cover operating costs. The Department allocates funds from its State appropriation to cover operating cost associated with management of these special purpose State General Fund appropriations.

The amount of the 2000 Capital Reserve Fund appropriation brought forward to fiscal year 2002 was \$132,130. \$48,476 of this amount was carried forward to fiscal year 2003 pursuant to the August 1999 Joint Resolution R201, H3697.

The amount of State funds brought forward to fiscal year 2002 was \$4,541,132. The Department brought forward to fiscal year 2002 \$50,000 for county airport improvements at Hartsville Airport and \$2,000,000 for the Spartanburg Renaissance Project pursuant to Part IV of the fiscal year 2001 Appropriation Act. \$2,491,132 allocated to the Coordinating Council for economic development was brought forward as allowed by part VI of the 1997 Appropriations Act.

The amount of State General Fund appropriations to be carried over to fiscal year 2003 is \$2,827,919. This carry forward is reported as reserved fund balance. The Department carried forward to fiscal year 2003 \$50,000 for county airport improvements at Hartsville Airport. \$2,499,115 allocated to the Coordinating Council for economic development was carried forward as allowed by Part VI of the 1997 Appropriations Act. In addition, \$276,301 of funds appropriated for Aviation grants was carried forward pursuant to Proviso 27.16 of the 2003 Appropriations Act and \$2,504 was carried forward for specific purposes per Proviso 72.44 of the 2002 Appropriations Act.

Proviso 72.43 of the 2002-2003 Appropriations Act authorizes the Department to carry forward unspent fiscal year 2002 appropriations up to a maximum 10% of the original appropriation less any reduction to the 2002 fiscal year excluding amounts carried forward under separate carry forward authority. Unspent fiscal year 2002 appropriations amounted to \$27,441 as of June 30, 2002. The proviso states the provision may be suspended if necessary to avoid a fiscal year-end State General Fund deficit. Due to the State General Fund's budget deficit, these funds lapsed back to the State's General Fund and the above amount is shown as a liability on the balance sheet.

NOTE 3. DEPOSITS AND INVESTMENTS:

Cash and cash equivalents consist of deposits under the control of the State Treasurer, who by law, has sole Fund for investing State funds and deposits under the control of the Department Fund. However, as authorized by the State Treasurer's office, certain funds for foreign office operation are invested and deposited with foreign financial institutions.

The following schedule reconciles deposits within the footnotes to the statement of net asset amounts:

<u>Statement of Net Assets</u>		<u>Footnotes</u>	
Cash and cash equivalents	\$ 33,676,048	Deposits Held by State Treasurer	\$ 33,198,344
Investments	78,775,000	Other Deposits	477,404
		Petty Cash	300
		Investments	78,775,000
	<u>\$ 112,451,048</u>		<u>\$ 112,451,048</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

The account classified as "Cash on deposit with the State Treasurer" in the financial statements consists of amounts in the general and special deposits accounts with the State Treasurer as part of the State's internal cash management pool. The special deposits are in a composite account that draws interest. The account classified as cash on hand consists of cash used for petty cash and change fund purposes. Cash held in foreign accounts consists of cash held by foreign banks for the Tokyo, Japan; Hong Kong; and Munich, Germany offices.

Deposits

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

The Entity's deposits which are not with the State Treasurer are categorized to indicate the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits insured or collateralized with securities held by the entity/entities. Category 2 includes deposits collateralized with securities held by the pledging financial institution trust department or agent in the entity's name. Category 3 includes uncollateralized deposits, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the entity's name.

All of the deposits with foreign banks are in Category 3 and the carrying amount and bank balance was \$158,331 and \$199,059 respectively as of June 30, 2002. All of the remaining cash on deposit of \$319,073 was in category 1. The highest balance of deposits in Category 3 during the year was approximately \$719,000.

Investments

Legally authorized investments include obligations of the United States, obligations of the State of South Carolina and other states and certain of their political subdivisions, certificates of deposit, collateralized repurchase agreements, certain corporate bonds, and commercial paper.

All of the Department's investments are stated at fair value except those meeting certain specific requirements. Purchases and sales are accounted for on the trade date. Unrealized gains and losses on investments have been recorded. Realized gains and losses on securities transactions are recorded on the accrual basis. Earnings are recorded on the accrual basis.

The Department's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fail. There are three categories of credit risk as follows:

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

1. Insured or registered, or for which the securities are held by the government or its agent in the government's name.
2. Uninsured and unregistered, with securities held by the counter-party's trust department or agent in the government's name.
3. Uninsured and unregistered, with securities held by the counter-party, or by its trust department or agent but not in the government's name.

A summary of other investments at June 30, 2002 by credit risk category follows:

	Category			Carrying Amount	Fair Value
	1	2	3		
State and local obligations	\$78,775,000			\$78,775,000	\$78,775,000

NOTE 4. INVENTORIES:

The Department's Aeronautics Division had inventories at June 30, 2002 of \$37,215. The inventories consisted of jet and automotive fuels and is accounted for at the lower of cost or market on a first-in, first-out basis.

NOTE 5. STATE CAPITAL IMPROVEMENT BOND PROCEEDS:

In prior years, the State of South Carolina authorized funds for improvements and expansion of municipal airport facilities and various other projects within the State using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the municipal entity. The Department records the proceeds as revenue when the expenses/expenditures are incurred. These funds represent a type of pass-through grant to municipal entities, and are reported as allocations to other entities for airport capital improvements and special items. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The Department is not obligated to repay state capital improvement bonds.

Act	Total Authorized	Balance Undrawn June 31, 2002
R256 of 1991	\$ 3,861,687	\$ 20,587
111 of 1997	3,000,000	819,709
Totals	<u>\$ 6,861,687</u>	<u>\$ 840,296</u>

A summary of the balances available from these authorizations as of June 30, 2002 follows:

In the current year, \$234,872 was allocated to other entities for airport capital improvements. \$10,800,000 was allocated to other entities for various other state projects.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

NOTE 6. CAPITAL ASSETS:

The following schedule summarizes capital assets activity for the Department for the fiscal year 2002:

	Beginning Balances as Restated June 30, 2001	Increases	Decreases	Ending Balances June 30, 2002
Capital assets not being depreciated:				
Construction in progress	\$ 824,756	\$ 88,772	\$ (913,528)	\$ -
Other capital assets:				
Buildings and improvements	3,122,454	913,528		4,035,982
Equipment and furniture	1,678,424	43,234	(223,736)	1,497,922
Vehicles	5,518,679	28,969	(878,017)	4,669,631
Total other capital assets	10,319,557	985,731	(1,101,753)	10,203,535
Less accumulated depreciation for				
Buildings and improvements	1,394,278	158,436		1,552,714
Equipment and furniture	611,559	204,625	(126,278)	689,906
Vehicles	818,459	224,222	(147,484)	895,197
Total accumulated depreciation	2,824,296	587,283	(273,762)	3,137,817
Other capital assets, net	7,495,261	398,448	(827,991)	7,065,718
Total capital assets, net	\$ 8,320,017	\$ 487,220	\$ (1,741,519)	\$ 7,065,718

NOTE 7. DUE FROM THE GENERAL FUND OF THE STATE:

The amount receivable represents funds due from the State General Fund for personal services and employer contributions of the Department consisting of salaries and the cost of related employee benefits funded by State appropriations accrued at June 30 but paid in July. By State law, these accruals are paid from funds appropriated for the next fiscal year.

NOTE 8. NOTES PAYABLE:

On November 9, 2001, the Department borrowed \$219,000 under a note payable from a financial institution. Monthly payments of \$6,387 including interest at 3.19% are due commencing March 15, 2002 with final maturity on February 15, 2005. The note is secured by non-capitalized equipment with an original cost of approximately \$219,000. The Department has been repaying this debt from the general fund. On March 1, 2002, the Department borrowed \$3,500,000 from the South Carolina State Budget and Control Board to be repaid on March 1, 2003 with simple interest at 3% per annum. These funds were utilized to fund \$3,500,000 grant for the Spartanburg Renaissance project. All revenue and funds of the Department are pledged to secure this loan. On March 1, 2002, the Department agreed to borrow an additional \$3,000,000 from the South Carolina State Budget and Control Board for the same purpose. These funds were available to be drawn during the period July 1, 2002 through November 1, 2002 and are to be repaid one year after receipt with simple interest at 3%. The \$3,000,000 was received on July 2, 2002.

Total interest expense on the notes payable during the fiscal year was \$37,818.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

Details of annual debt service as of June 30, 2002, including interest, for each year are as follows:

Year ending June 30	Principal	Interest	Total
2003	\$ 3,571,442	\$ 110,203	\$ 3,681,645
2004	73,755	2,791	76,546
2005	<u>50,490</u>	<u>606</u>	<u>51,096</u>
Total debt service obligations	<u>\$ 3,695,687</u>	<u>\$ 113,600</u>	<u>\$ 3,809,287</u>

NOTE 9. LONG-TERM LIABILITIES:

Long-term liability activity for the year ended June 30, 2002 was as follows:

	Balance, July 1, 2001	Additions	Reductions	Balance, June 30, 2002	Due Within One Year
Notes payable	\$	\$ 3,719,000	\$ 23,313	\$ 3,695,687	\$ 3,571,442
Accrued compensated absences and related benefits	905,008	655,232	659,725	900,515	659,725
	<u>\$ 905,008</u>	<u>\$ 4,374,232</u>	<u>\$ 683,038</u>	<u>\$ 4,596,202</u>	<u>\$ 4,231,167</u>

NOTE 10. LEASE OBLIGATIONS:

OPERATING LEASES

The Department has entered into operating leases for non-state owned land, office space and some office equipment with external parties. All of the leases are non-cancelable leases with no purchase options and their terms are greater than one year. Payments are due on a monthly basis. Ending payment dates range from fiscal years from 2003 through 2029. Certain operating leases provide for renewal options for periods from one to five years at their fair rental value at the time of renewal. In the normal course of business, operating leases are generally renewed or replaced by other leases.

Rental expenditures for all operating leases aggregated approximately \$1,542,000 for the year ended June 30, 2002. The following is a schedule by fiscal year of future minimum rental payments at June 30, 2002 required under the noncancellable operating lease agreements.

<u>Year</u>	<u>Amount</u>
2003	\$ 998,592
2004	996,423
2005	1,028,700
2006	992,650
2007	970,980
2008-2012	2,095,284
2013-2017	255,540
2018-2022	255,540
2022-2027	255,540
2028-2029	<u>63,885</u>
Total	<u>\$ 7,913,134</u>

The Department paid the State Budget and Control Board approximately \$182,000 for vehicle rentals on year to year leases. These leases are generally renewed each year.

On November 29, 2001, the Department amended the operating lease agreement for its office space. The amendment extends the lease to June 30, 2009.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002**

NOTE 11. FUND BALANCE RESERVATIONS:

In addition to the General Fund reservations for restricted purpose State General Fund appropriations carried forward and disclosed in Note 2, other fund balance reservations in the general fund were for restricted purposes and equaled \$1,177,055 at fiscal year end 2002. Included in this amount are the following: \$51,103 carried forward for administrative, data collection, credit analysis, cost-benefit analysis and reporting expenditures under the enabling act for the enterprise zones; \$638,830 of proceeds from aircraft sales carried over to be used for purchase of replacement aircraft under Proviso 27.15 of the 2001-2002 Appropriation Act; \$74,280 from the South Carolina Department of Health and Environmental Control to fund the activities of the Recycling Market Development Advisory Council; \$100,000 for the Sumter County Airport received from the South Carolina Public Service Commission in fiscal year 2001; \$48,476 for the Union County airport improvements; and \$264,366 for other legally and contractually required purposes.

NOTE 12. TRANSACTIONS WITH STATE AGENCIES:

The Department has significant transactions with the State of South Carolina and various State agencies.

The Department remitted indirect cost recoveries received under various grants to the State General Fund. In addition, the Department remitted \$6,000 of hanger rental income pursuant to Proviso 27.10 of the 2001-2002 Appropriations Act.

Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation and banking from the State Treasurer and legal services from the Attorney General; collection of highway taxes levied under South Carolina Code of Laws Section 12-28-2910 by the Department of Revenue; and records storage from the Department of Archives and History. Other services received at no cost from the various divisions of the State Budget and Control Board include retirement plan administration, insurance plan administration, procurement services, audit services, grant services, personnel management, assistance in the preparation of the State Budget, property management and record keeping review and approval of certain budget amendments and other centralized functions.

The Department had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plan contributions, vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Significant payments were also made during the year to the State Accident Fund and the Employment Security Commission for workers compensation and unemployment insurance coverage, respectively.

The Department provided no material services free of charge to other State agencies during the fiscal year. Services provided for a fee include air transportation and sale of fuel and supplies. Revenues from other State agencies are recognized when goods or services are provided by the Department. Revenues from other State agencies are included in the "Aircraft rental" and "Sale of goods and services" revenue accounts. Significant revenues derived from other State agencies amounted to approximately \$78,000. The amount due from other State agencies as of June 30, 2002 was \$28,669. This includes \$19,380 due from the State Health Insurance Reserve Fund for the reimbursement for the overpayment of health and dental premiums.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

State agency members of the Coordinating Council for Economic Development voted not to assess dues to its members beginning with the fiscal year ended June 30, 1995. The Council determined that it would be satisfactorily funded with "highway taxes for State Economic Development". The Coordinating Council for Economic Development administers and has responsibility for the State Economic Development account. The member agencies of the Council are the Department of Agriculture, the State Ports Authority, the Department of Revenue, the Department of Commerce – State Division of Development, the Department of Parks, Recreation and Tourism, Santee Cooper, the Jobs-Economic Development Authority, the State Board of Technical and Comprehensive Education, the State Budget and Control Board – Office of Research and Statistical Services, and the Employment Security Commission.

Pursuant to Sections 12-10-80 and 12-10-85 of the South Carolina Code of Laws, the Department received \$3,885,569 in job development fees from the State Department of Revenue to be retained in the State Rural Infrastructure Fund which included \$2,423,805 due to the Department from the State Department of Revenue as of June 30, 2002. The State Department of Revenue also collects and remits to the Department admissions, gasoline and aviation fuel taxes. The Department received \$1,000,950 and \$18,000,000 in admissions and gasoline taxes; respectively. \$321,742 of the \$1,000,950 was due from the Department of Revenue as of June 30, 2002. The Coordinating Council approves expenditures of these funds specifically for infrastructure development grants. The Department received \$643,108 in aviation fuel tax to be spent on airport improvements as directed by the Department's Aeronautics division.

The Department received the following allocations from other state agencies during the current year.

<u>Agency Transferred from</u>	<u>Purpose</u>	<u>Amount</u>
Department of Health and Environmental Control	Recycling Program	\$ 150,000

\$37,000 of the \$150,000 was receivable as of June 30, 2002.

The Department was required to remit \$920,437 to the General Fund of the State pursuant to Proviso 72.111 of the 2002 Appropriations Act.

NOTE 13. PENSION PLAN:

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Department are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective, January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6 percent of all compensation. Effective July 1, 2000 the employer contribution rate became 10.07 percent which included a 2.85 percent surcharge to fund retiree health and dental insurance coverage. The Department's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2002, 2001 and 2000 were approximately \$585,176, \$618,000 and \$531,000, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Department paid employer group life insurance contributions of approximately \$11,600 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Department for pension and group-life benefits are expenditures reported as employer contribution within the applicable program.

Article X, Section 16 of the South Carolina Constitution requires that all state operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employer/employee contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest twelve consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Department's liability under the plan is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Department's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the fund recognizes no contingent liability for unfunded costs associated with participation in the plan. At retirement, employees participating in SCRS may receive additional service credit (at a rate of 20 days equal to one month of service) for up to 90 days for accumulated unused sick leave.

NOTE 14. POST-EMPLOYMENT AND OTHER EMPLOYEE BENEFITS:

In accordance with the South Carolina Code of Laws and the Annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time employees and certain permanent part-time employees of the Department are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through annual appropriations by the General Assembly to the Department for its active employees and to the State Budget & Control Board for all participating State retirees, except the portion funded through the pension surcharge, and provided from other

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

applicable fund sources of the Department for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Approximately 22,000 State retirees met these eligibility requirements as of June 30, 2001.

The Department recorded employer contribution expenditures applicable to these insurance benefits for active employees in the amount of approximately \$488,000 for active employees for the year ended June 30, 2002. As discussed in Note 13, the Department paid approximately \$221,000 applicable to the 2.85% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Information regarding the cost of insurance benefits applicable to the Department retirees is not available. By State law, the Department has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the South Carolina General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the South Carolina General Fund annually.

NOTE 15. DEFERRED COMPENSATION PLANS:

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Department have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee.

The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

NOTE 16. RISK MANAGEMENT:

The Department is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The Department pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits except for the deductibles.

State management believes it is more economical to manage certain risks internally and to set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insurance plan except dependent and optional life premiums which are remitted to commercial carriers.

The Department and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles;
4. Torts; and
5. Natural disasters.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

The Department obtains up to \$10,000 per occurrence coverage through a commercial insurer for employee fidelity bond insurance for all employees for losses arising from theft or misappropriation. The Department also purchases insurance through a commercial insurer for aircraft coverage, including bodily injury and property damage insurance up to \$10 million per occurrence and aircraft physical damage insurance based on the insured value of each aircraft maintained by the Department.

The Department also has insurance coverage on its 12.50% share of the airplane as detailed in Note 19.

The Department has recorded insurance premium expenditures in the applicable program expenditure categories of the general fund.

The Department has not transferred the portion of risk of loss related to insurance policy deductibles, and policy limits to a State or commercial insurer. The Department reported no expenditures in the current year for actual claims payment and costs related to such retained risks of loss.

In management's opinion, claims losses in excess of insurance coverage are unlikely, and if incurred, would be insignificant to the Department's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore, no loss accrual has been recorded.

NOTE 17. OPERATING TRANSFERS:

The Department transferred \$60,000 of Coordinating Council funds from the Special Revenue Fund to the General Fund to use for the development of the South Carolina Infrastructure-Economic Development Planning Project as provided for in Proviso 27.3 of the 2001-2002 Appropriations Act. In addition, \$400,000 of Coordinating Council Funds was transferred from the Special Revenue Fund by the Coordinating Council to the General Fund to be used for the council's administrative costs as provided for in Proviso 27.3 of the 2001-2002 Appropriations Act.

Pursuant to Proviso 72.76 of the 2002 Appropriations Act, the Department transferred \$340,240 of funds reserved for admissions tax projects to the General fund to cover the amount equal to the general fund base reduction to maintain critical programs previously funded with general fund appropriations.

SOUTH CAROLINA DEPARTMENT OF COMMERCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2002

NOTE 18. CONTINGENT LIABILITIES:

The various federal programs administered by the Department for the fiscal year 2002 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, if any, which may be due federal grantors have not been determined but the Department believes that any such amount in the aggregate would not have a material adverse effect on the financial position of the Department. Furthermore, there is no information to indicate that a liability should be recorded at fiscal year-end.

NOTE 19. COMMITMENTS:

The Department engages in a variety of development projects. All project commitments are to local government entities which are responsible for contracting with specific vendors to achieve the project objectives. Outstanding commitments as of June 30, 2002 are as follows:

Water and Wastewater Infrastructure Grants	\$ 79,613,220
State Rural Infrastructure Grants	3,535,958
Community Development Block Grants	9,936,562
State Economic Development Programs	20,730,685
Airport Improvement and Expense Projects - funded by State Capital Improvement Bonds	291,281
Aviation Fuel Tax Grants	712,167
State Aviation Fuel Grants	308,988
Hartsville Airport	50,000
Sumter County Airport	100,000
Union County Airport	48,476
Spartanburg Renaissance Project	3,000,000
Totals	<u><u>\$ 118,327,337</u></u>

In connection with the purchase of an 18.75% undivided interest in an airplane, the Department is obligated to pay a monthly management fee of \$15,863 as long as it owns the airplane. The management fee includes the cost of pilot training; pilot salaries; arranging for maintenance; scheduling; insurance against any loss, theft or damage to the aircraft and liability insurance for bodily injury and property damage; reports and recordkeeping. In addition to the management fee the Department pays an hourly rate for each hour it uses the airplane. The monthly management fee and hourly charge are subject to adjustments for inflation factors. The expenditures are included under flight operations. The Department has the right to sell its interest in the airplane back to the seller anytime after 24 months from the closing date of June 13, 2000 and must sell it back 60 months from the closing date. During the current year, the Department sold back 6.25% of the undivided interest in the airplane. The monthly management fee was reduced to \$11,114.

NOTE 20. ACCOUNTING CHANGES/PRIOR PERIOD ADJUSTMENTS:

The Department made a correction of an error involving the application of an accounting principle. In previous years, revenues from State capital improvement bonds and State Capital Reserve fund appropriations were recognized when the bonds / funds were authorized by the legislature. Because the Department is entitled to seek reimbursement for construction costs only to the extent of expenses incurred for the approved projects, certain capital improvement bond proceeds revenue and capital reserve fund revenue previously recognized had not been earned at June 30, 2001. The Department also corrected errors for the omission of the Water and Wastewater Infrastructure Fund and the omission of certain receivables and payables.

SOUTH CAROLINA DEPARTMENT OF COMMERCE

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2002

All State agencies and institutions were required to adopt a capitalization limit of \$5,000 for movable personal property (including library material) and \$100,000 for depreciable land improvements, buildings and improvements, and tangible assets, as of July 1, 2001. As a result of the change in asset capitalization policy, the Department removed capitalized assets on hand at July 1, 2001, which did not meet the new capitalization levels. Also, all State agencies were required to change the definition of the period of availability for revenue recognition for its governmental funds from 30 days to one year.

As a result of the adoption of GASB Statement No. 34 as discussed in Note 1, the Department was also required to make certain changes in accounting principles, specifically recording in the statement of net assets, capital assets, long-term liabilities and accrued interest payable.

The effect of accounting and reporting changes on beginning fund equity in the fund financial statements is as follows:

	Governmental Funds
Fund balance, June 30, 2001, as previously reported	\$ 55,485,434
Correction of errors:	
Adjust receivables from capital improvement bonds	(11,075,167)
Record assets attributable to	
Water and Wastewater Infrastructure Fund	79,307,976
Adjust carrying value of foreign bank account	87,229
Adjust amount due from Federal government	62,020
Adjust amount due from other State Agencies	303,213
Record accounts payable	(4,056,267)
Fund balance, June 30, 2001, as restated	<u>\$ 120,114,438</u>

The effect of accounting and reporting changes on beginning net assets in the entity –wide financial statements is as follows:

Net assets July 1, 2001	\$ -
Record fund equity at June 30, 2001 of fund based activities previously reported in financial statements	67,952,535
Adjustments resulting from increase in capitalization limits	(1,322,787)
Correction of errors:	
Adjust receivables from capital improvement bonds	(11,075,167)
Record assets attributable to	
Water and Wastewater Infrastructure Fund	79,307,976
Adjust carrying value of foreign bank account	87,229
Record receivables:	
Due from Federal Government	62,020
Due from other State Agencies	303,213
Record payables	(4,056,267)
GASB Statement No. 34 restatements	
Record the following assets and liabilities:	
Accumulated depreciation	(2,824,296)
Accrued compensated absences and related benefits	(905,008)
Net assets, July 1, 2001, as restated	<u>\$ 127,529,448</u>

SOUTH CAROLINA DEPARTMENT OF COMMERCE

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2002**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Total Expenditures</u>	<u>Pass-Through Expenditures Subrecipients</u>
U.S. Department of Housing and Urban Development			
Direct Program:			
Community Planning and Development			
Community Development Block			
Grants/State's Program	14.228	\$ 34,383,541	\$ 33,827,867
U.S. Department of Transportation			
Direct Program:			
Federal Aviation Administration			
Airport Improvement Program	20.106	397,305	
U.S. Department of Labor			
Employment and Training Administration			
Passed through from South Carolina			
Employment Security Commission:			
Job Training Partnership Act (JTPA)	17.250	68,425	
Appalachian Regional Commission			
Direct Programs:			
Appalachian State Research, Technical			
Assistance and Demonstration Projects	23.011	21,368	
Appalachian Area Development	23.002	800,000	
U.S. Environmental Protection Agency			
Direct Programs:			
Solid Waste Management Assistance	66.808	11,984	
U.S. Department of Energy			
Direct Program:			
Energy Grant	81.999	45,470	
TOTALS		<u>\$ 35,728,093</u>	<u>\$ 33,827,867</u>

The Schedule of Expenditures of Federal Awards. includes the federal grant activity of the South Carolina Department of Commerce and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of South Carolina Department of Commerce (the Department) as of and for the year ended June 30, 2002, and have issued our report thereon dated January 27, 2003 which was qualified because of the omission of the Department's enterprise funds. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 02-1 through 02-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



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Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described on the accompanying Schedule of Findings and Questioned Costs are material weaknesses.

This report is intended solely for the information and use of the Governor, the Secretary of Commerce, management of the Department and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan, PA

January 27, 2003



ROGERS & LABAN, PA

CERTIFIED PUBLIC ACCOUNTANTS AND FINANCIAL CONSULTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO ITS MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Mr. Thomas L. Wagner, Jr., CPA,
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina Department of Commerce (the Department) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2002. The Department's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Department's compliance with those requirements.

In our opinion, the Department complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2002.

Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Governor, the Secretary of Commerce, management of the Department and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers & Lalan PA

January 27, 2003

SOUTH CAROLINA DEPARTMENT OF COMMERCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2002

SUMMARY OF AUDITOR'S RESULTS

Financial statements:

1. A qualified opinion dated January 27, 2003 on the financial statements of the Department for the year ended June 30, 2002 was issued.
2. Reportable conditions relating to the internal control over financial reporting were noted during our audit of the financial statements. These conditions are reported as material weaknesses.
3. No instances of noncompliance which were material to the financial statements were disclosed during the audit.

Federal Awards:

4. No reportable conditions in internal control over major programs were noted.
5. An unqualified opinion on compliance for the major program dated January 27, 2003 was issued.
6. There were no findings disclosed during the audit that are required to be reported under Section .510(a) of OMB Circular A-133.
7. The major program of the Department is the Community Development Block Grant – CFDA #14.228
8. The dollar threshold used to distinguish between Type A and Type B programs was \$1,071,843.
9. The Auditee was determined to be a low risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

The following reportable conditions are material weaknesses, are related to the Department's financial statements and are required to be reported in accordance with government auditing standards generally accepted in the United States of America.

02-1 ACCOUNTS PAYABLE UNDERSTATED

Condition:

The Department is not recording amounts allocated to other entities under various programs including the Water and Wastewater Infrastructure fund and the State Economic Development account in its accounts payable closing package submitted to the State Comptroller General. Total accounts payable were understated by approximately \$3,335,000 for the year ended June 30, 2002. Accounts payable were understated by approximately \$4,056,000 for the year ended June 30, 2001.

Cause:

Department personnel completing the closing packages apparently were not aware of the requirement to include these type of liabilities as accounts payable

Effect:

Liabilities and expenses/expenditures are being understated. Audit adjustments were made to the Department's financial statements to correct these understatements.

Criteria:

Good business practices and GAAP require that the Department to record all liabilities existing as fiscal year-end.

Recommendation:

We recommend that the Department carefully review all vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year are recorded.

02-2 ERRORS IN DEPRECIATION SCHEDULES

Condition:

There were two capital assets owned by the Department that were not being properly depreciated based on the depreciation schedule prepared by the Department. There was one piece of equipment owned by the Department that was not on the depreciation schedule at all. The other asset was put on the depreciation schedule with a 50 year life instead of the intended 5 year useful life.

Cause:

Department personnel did not reconcile the depreciation schedule to the capital assets total and did not carefully review the schedule for reasonableness. A detailed review by someone independent of the preparer should have been performed since this is the first year that the Department was required to record depreciation on its capital assets.

Effect:

Accumulated depreciation as of the beginning of the year was understated by approximately \$112,500 and current years depreciation expense was understated by approximately \$76,300. Audit adjustments were made to the Department's financial statements to correct these misstatements.

Criteria:

Good business practices require that all schedules be reconciled and that they be reviewed for reasonableness.

Recommendation:

We recommend that the Department implement adequate review procedures to ensure that all schedules and reports that it prepares are accurate.

FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None reported.

MANAGEMENT'S RESPONSE

APPENDIX A



Mark Sanford
Governor

SOUTH CAROLINA
DEPARTMENT OF COMMERCE

Robert A. Faith
Secretary

March 18, 2003

Rogers & Laban, PA
Certified Public Accountants and Financial Consultants
Mr. Barry Laban
1529 Hampton Street, Suite 200
Columbia, South Carolina 29202

Dear Mr. Laban:

This is in response to the Management Letter Findings and Comments for the audit period ending June 30, 2002 for the South Carolina Department of Commerce.

Management Letter Finding 02-01: Accounts Payable Understated

Summary of Condition: The Department is not recording amounts allocated to other entities under various programs including the Water and Wastewater Infrastructure fund and the State Economic Development account in its Accounts Payable Closing Package submitted to the State Comptroller General.

Recommendation: We recommend that the Department carefully review all vouchers processed subsequent to fiscal year-end to ensure that all liabilities attributable to the fiscal year are recorded.

Management Response: During the Department's last audit ending June 30, 2001 the CDBG funds, State Rural Infrastructure funds, and Highway Set-Aside funds, as well as, all other funds were explained, reviewed, and discussed with Mike DeFalco, CPA an employee of Rogers & Laban, PA. This is a standard procedure that the Department has followed for the past six years with all Rogers & Laban staff. Mr. DeFalco reviewed the vouchers and determined that the Department was processing vouchers correctly and that they should not be included in the Accounts Payable Closing Package. This had also been the opinion of previous auditors employed by Rogers & Laban. The Department added the Waste Water Infrastructure funds (Tobacco Tax) and specifically sought advice from Mr. DeFalco, concerning completing the Accounts Payable Closing Package. Mr. DeFalco determined the vouchers should not be included because they were closely related to the Highway Set-Aside and State Rural Infrastructure payments which had never been included the in past closing packages.



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The Department of Commerce staff reviewed all vouchers that were paid in FY 03 in the months of July and August per the closing package instructions. The vouchers were intentionally not reported due to instructions received from Mr. DeFalco with Rogers & Laban. The Department was audited by a different auditor from Rogers & Laban after the resignation of Mr. DeFalco. The Department was informed that the Accounts Payable Closing Package had not been completed accurately. Therefore, the cause of the understatement was not because Department of Commerce personnel were not apparently aware of the requirements but was due to following the instructions from the current auditing firm.

Effective immediately, the Department will begin including the above related funding vouchers on the Accounts Payable Closing Packages as instructed by the firm of Rogers and Laban and be assured that good business practices and GAAP principles will continue to be used.

Management Letter Finding 02-02: Errors in Depreciation Schedules

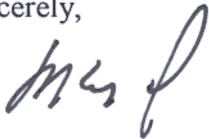
Summary of Condition: There were two capital assets owned by the Department that were not being properly depreciated based on the depreciation schedule prepared by the Department.

Recommendation: We recommend that the Department implement adequate review procedures to ensure that all schedule and reports that it prepares are accurate.

Management Response: GASB 34 was implemented this year and it brought about a lot of changes in the accounting and processing of the Capital Asset Closing Package. To ensure the package was prepared correctly the Department had Mr. DeFalco, an auditor of Rogers & Laban, review the package prior to it being submitted to the Comptroller General's Office. Two errors were found on the closing package after being reviewed by Mr. DeFalco and two DoC staff. As recommended the Department has changed its procedures and the staff Chief Administrative Officer will be reviewing and signing all the closing packages in the future.

If you need additional information on any of these matters, please do not hesitate to contact me.

Sincerely,



William B. Floyd, CPA
Chief Administrative Officer

WBF/snm